Message From the Secretary

The Government Management Reform Act and the Government Performance and Results Act both have the objective of ensuring that Federal government agencies are accountable to American taxpayers. This report, the Department of Energy's FY 1997 Annual Report, provides a clear accounting of the return on the investment entrusted to the Department of Energy.

Unlike previous annual reports prepared by the Department, this report is fashioned along the lines of a corporate report to the shareholders. Not only does this report contain audited financial statements for the fiscal year but it also describes what our shareholders, American taxpayers, received in the way of services and contributions to the important National goals this Administration and the Department have promised to provide.

I am personally committed to the principles of the President's National Performance Review to reinvent government by changing the way we do business. This report is another measure of this commitment. It provides a progress report on how the Department is serving the country and how we are doing it for much lower cost. On September 30, 1997, I submitted a strategic plan which documents the important goals and objectives of the Department with clear measures that would indicate our progress. Future budgets and reports on our results will be based upon this plan.

Everyone, including the President, the Congress, and the American taxpayer, wants our Federal government agencies to strive for excellence and efficiency in all that we do. It is my hope that this report can help to establish an open and collegial effort to ensure this outcome.

Federico Pena
Secretary of Energy

OVERVIEW

Introduction

One of the greater challenges the Department of Energy (DOE) has faced in recent years is creating a government that works better and costs less. To meet this challenge, DOE has become a more streamlined agency: one that is responsive to its many stakeholders, and leads the way in meeting some of our Nation's most important goals. Today we are providing better products and services at a lower cost to U.S. taxpayers. Our successes in FY 1997 have proven this agency to be a major contributor to the Nation's economic growth, a secure energy supply, a cleaner environment, scientific advancement and technological development, and a reduced worldwide nuclear threat.

We continued to deliver measurable results that build on the Administration's progress in accelerating the cleanup of our weapons production sites; strengthening nuclear nonproliferation; replacing underground testing with science-based stockpile stewardship; promoting clean, efficient, and abundant energy supplies; and enhancing the Nation's economic competitiveness through advancements in science and technology.

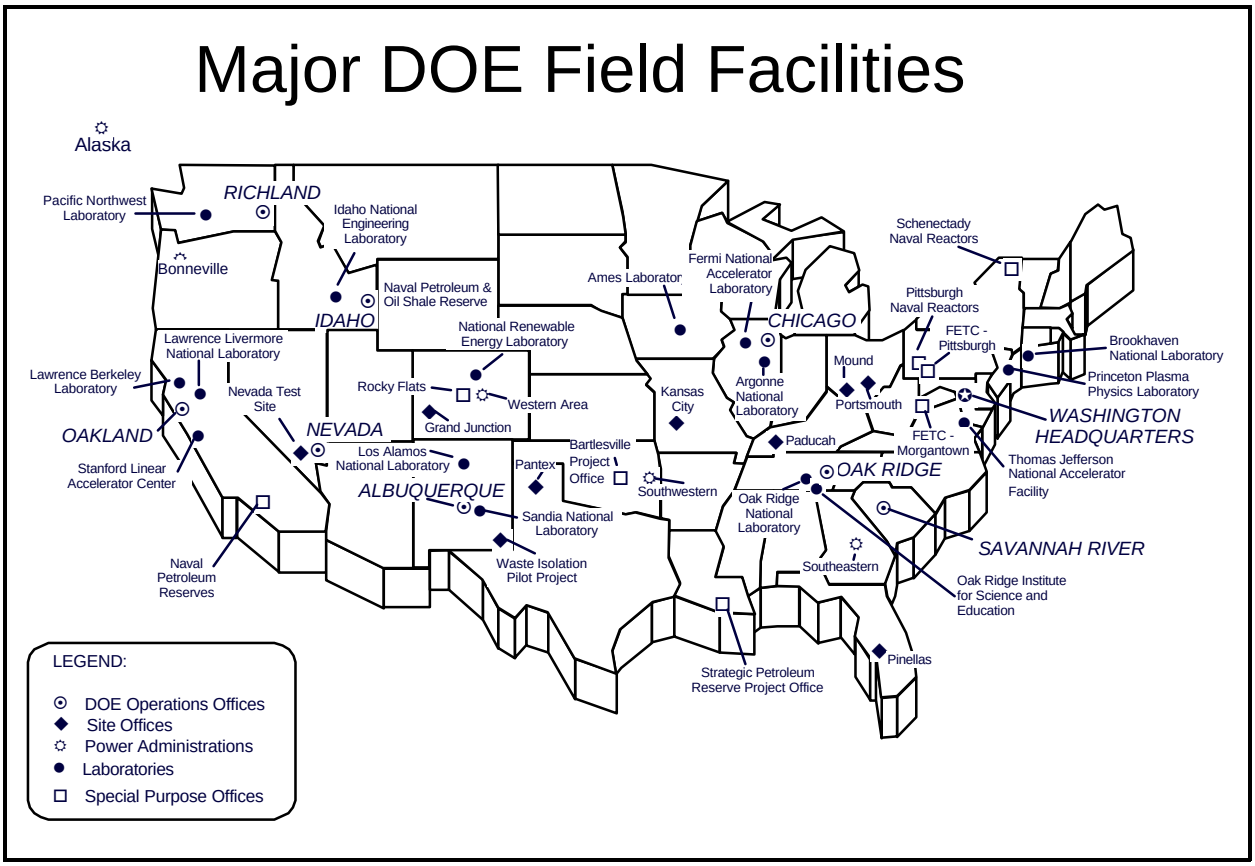
Our History

The Department of Energy has been in formal existence for only twenty years, yet its history extends far back to days of the Manhattan Project, when security requirements led to the establishment of the Manhattan Engineering District in 1942, under the Army Corps of Engineers, to manage the development of the first atomic bomb. After World War II, with atomic weapons a reality, Congress created the Atomic Energy Commission (AEC) in 1946 to direct the design, development, and production of nuclear weapons. The AEC's mission also extended into developing nuclear reactors, initiating major efforts to commercialize nuclear power, and regulating the growing industry.

In 1975, Congress replaced the AEC with two separate agencies: the Nuclear Regulatory Commission, which was assigned the licensing and regulatory functions of the abolished AEC, and the Energy Research and Development Administration, created to manage the nuclear weapons, naval reactors, and energy development programs, as well as to research the environmental and safety aspects of energy technologies. During this period, the United States found itself faced with an energy crisis, emphasizing the need for one cabinet-level department to coordinate all Federal energy policy and programs. Congress passed legislation to create the Department of Energy in October 1977, bringing together many important functions under one agency. Today, the Department manages a vast array of energy programs and a nationwide complex including headquarters organizations, operations offices, field offices, national laboratories, power marketing administrations, special purpose offices, and sites now dedicated to environmental cleanup.

Our Mission

Since the publication of the Department of Energy's first Strategic Plan in April 1994,



our activities have been conducted within a framework and vision for accomplishing our overall agency mission and the missions we identified through the five business lines that encompass everything we do: energy resources, national security, environmental quality, science and technology, and economic productivity.

The Department of Energy's mission is to foster a secure and reliable energy system that is environmentally and economically sustainable, to be a responsible steward of the Nation's nuclear weapons, to clean up our own facilities, and to support continued United States leadership in science and technology. We identified the following five business lines through our initial comprehensive strategic planning process:

Energy Resources: Encourage efficiency and advance alternative and renewable energy technologies; increase energy choices for all consumers; ensure adequate supplies of clean, conventional energy; and reduce U.S. vulnerability to external events.

National Security: Support and maintain the safety and reliability of the enduring nuclear stockpile without nuclear testing; safely dismantle and dispose of excess weapons; and provide the technical leadership for national and global nonproliferation activities.

Environmental Quality: Reduce the environmental, safety, and health risks and threats from DOE facilities and develop the technologies and institutions required for solving domestic and global environmental problems.

Science and Technology: Use the unique resources of the Department's laboratories and the country's universities to maintain U.S. leadership in basic research; increasingly focus applied research to support the Department's other business lines; and maintain world technical leadership through long-term, systemic reform of science and mathematics education.

Economic Productivity: Promote economic growth and the creation of high-wage jobs through research and development partnerships with industry; drive products into the domestic and international marketplace; and help industry become more competitive by cost-effectively shifting from waste management to resource efficiency and pollution prevention.

Corporate Management

We recognized through our strategic planning process that a streamlined Department required the key elements of successful business practices. Determining how we conduct our businesses is as essential to our success as determining the missions themselves. These elements are critical to our success and are integrated into every business line:

Communication and Trust: We must communicate information and build trust within the organization and with our stakeholders and customers.

Human Resources: We must recruit, train and develop, reward performance, motivate, and promote diversity within our workforce.

Environment, Safety and Health: We must ensure the safety and health of workers and the public, and we must protect and restore the environment.

Management Practices: We must implement the best practices in allocating, spending, and accounting for resources and procuring, producing, and contracting for goods and services.

In FY 1997, the Department undertook a planning effort to produce a new strategic plan to take us into the 21st century. This plan also meets the requirements of the Government Performance and Results Act (GPRA). The new plan, released on September 30, 1997, has been significantly improved through a very close consultation process with Congress, our customers and stakeholders. Based on this plan, beginning with the FY 1998 budget cycle, the Department will conduct its activities within a new framework of four business lines, each with a strategic goal. Economic productivity continues to be an element of our activities, but will now be incorporated in the remaining four business lines. In the spirit of the National Performance Review, we identified a fifth strategic goal addressing corporate management. This fifth goal encompasses three areas critical to the success of our business lines: 1) environment, safety and health; 2) communication and trust; and 3) management practices (including human resources). Because the changes just described weren't initiated until FY 1998, the structure for this FY 1997 annual report will include economic productivity as a separate business line and human resources as a separate critical success factor.

As we continue our path forward into FY 1998, the Department of Energy will continue to build on its accomplishments with its new Strategic Plan to bring America into the 21st century. We can be proud of the successes we have achieved over the past four years, but we must continue to look

forward to new opportunities and challenges and to reassess our unique capabilities. Our priorities may change, but our focus remains the same— deliver results in the most efficient manner that promise a safer, cleaner, more productive world for ourselves and future generations.

Energy Resources

Clean, secure, affordable energy supplies are essential to the well-being of all Americans and to our Nation's economic health. Every day Americans depend on energy, usually without considering the impact its benefits have on their lives until events like a major oil disruption cause domestic and international turmoil. During FY 1997, we continued to develop and promote a comprehensive energy strategy which will result in an energy efficiency and renewable energy portfolio that 1) cost-effectively addresses critical domestic pollution prevention and energy security needs; 2) advances the efficient and environmentally responsible production, transportation, and use of domestic fossil fuels and other conventional energy sources; 3) promotes development of sustainable energy technologies with high export potential; 4) promotes an equitable system of energy supply and end use; 5) ensures that Americans enjoy sustainable, secure, and competitively priced energy services; and 6) reduces U.S. vulnerability to energy supply disruptions.

Energy security and economic growth depend on an abundant, affordable energy supply. The Department has many successes in advancing the Administration's commitment to a strong domestic energy industry, while promoting the use of clean energy technologies. The Federal Energy Regulatory Commission (FERC) focused much of its efforts in FY 1997 to make regulation more effective and integrate market forces into the overall regulatory model. FERC's regulatory activities provided new standards for market-based rates that encourage power companies, including those in the electricity, natural gas, and oil industries, to identify competitive services and receive market-based regulation. Improved environmental programs at FERC were also achieved through streamlining environmental reviews, stakeholder involvement, and incentives for voluntary compliance.

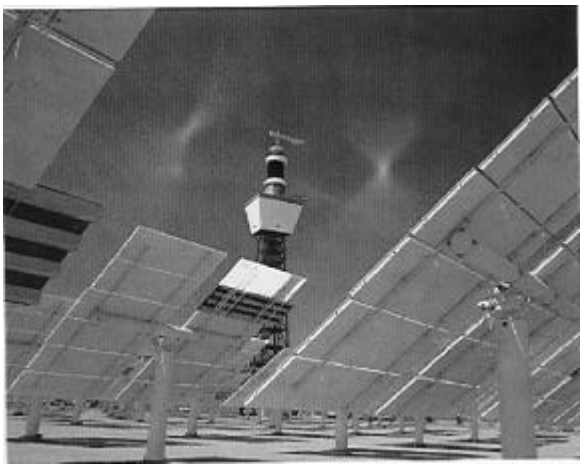
Energy demand is ever-increasing, and domestic production is essential to economic security. The demand for natural gas continues to rise, and coal remains the largest source for electric power. The Domestic Natural Gas and Oil Initiative has strengthened this vital sector of our economy by removing barriers to domestic production. Promoting energy efficiency is a cornerstone of the Nation's sustainable energy strategy goals of maximizing energy productivity, preventing pollution, and ensuring America's energy security. Our energy-efficiency programs are producing tangible results that can be measured in cost savings, job creation, and reduced oil imports.

The Department promotes energy efficiency by transferring proven energy efficiency measures to reduce government energy consumption and the resulting pollution, as well as through investments in renewable energy technology development. We helped attract more than $80 million of private sector investment to cost share our R&D in renewable technologies. In FY 1997, we weatherized more than 60,000 low-income homes, bringing the total number of homes weatherized since 1977 to over 4.4 million. We established regional umbrella energy

contracts any Federal agency can use to simplify procurement, accelerate private sector investment, and increase energy savings at Federal facilities. In the transportation sector, we are leading the government's R&D effort for building an 80 mile-per-gallon family car, and delivering technologies that will improve the fuel economy of diesel engines while reducing emissions. In FY 1997, we expanded the Clean Cities program, which promotes the use of alternative fuel vehicles, from 50 to 57 cities.

The Department continues to support the President's Climate Change Action Plan to reduce carbon emissions and international climate change initiatives under the United Nations Framework Convention on Climate Change. In FY 1997, we launched a campaign in six major cities with national retail chains to promote high-efficiency appliances. We also added 60 partnerships to the Rebuild America program to make building energy-efficiency improvements in cities across the United States, and over 200 new industrial partners to the Climate Wise program that challenges industry to reduce greenhouse gas emissions. We awarded $4.6 million for 13 new grants in the National Industrial Competitiveness for Energy, Environment, and Economics program, known as NICE^3. This innovative program promotes industry and government cost-shared projects to produce the next generation of cost-effective, pollution-prevention technologies.

In the energy security area, we are reducing U.S. vulnerability to energy supply disruptions with investments in the Nation's natural gas and oil industry recovery methods, and with regulatory reforms to boost the production of natural gas and oil. The Strategic Petroleum Reserve (SPR) is a key component of our energy security strategy. In FY 1997, we increased drawdown capability to 3.7 million barrels per day and inventory availability to 555 million barrels. We also initiated further efforts in the infrastructure life extension program to ensure the SPR maintains high reliability and availability of its critical drawdown systems well into the future.



Solar Two is a 50/50 cost-shared project between DOE and industry partners. DOE's Solar Thermal Electric Program is collaborating with the private sector to develop new solar technologies to meet the huge commercial potential for solar power.

To promote the development of clean power plants to contribute to the nation's electrical capacity and reduce electricity costs, the Department supports a new generation of natural gas, biomass, and clean coal power technologies. Nuclear power is also an important contributor to power production in the 21st century, and we continue to support the certification of standardized Advanced Light Water Reactors to ensure that nuclear power is a viable option for electricity production.

National Security

Although the post-Cold War era has brought about many changes in the Department's national security focus, the Department of Energy maintains a resolute commitment to

its mission of supporting a secure national defense. In August 1995, President Clinton, emphasizing his continued support and confidence in science-based stockpile stewardship to maintain a safe, secure, and reliable stockpile, announced that the United States would pursue a zero-yield Comprehensive Test Ban Treaty.

During FY 1997, additional progress was made in implementing the science-based Stockpile Stewardship and Management Program. The milestone of a one-trillion floating point calculations per second (teraflop) computer was installed in June and will support next-generation weapons simulations. The National Ignition Facility construction project is on schedule, but the Dual Axis Radiographic Hydrodynamic Test facility's construction schedule will be changed due to the cost of the selected technology for the second axis. Key stewardship experiments at the Los Alamos Neutron Science Center and the two planned subcritical experiments at the Nevada Test Site were successful.

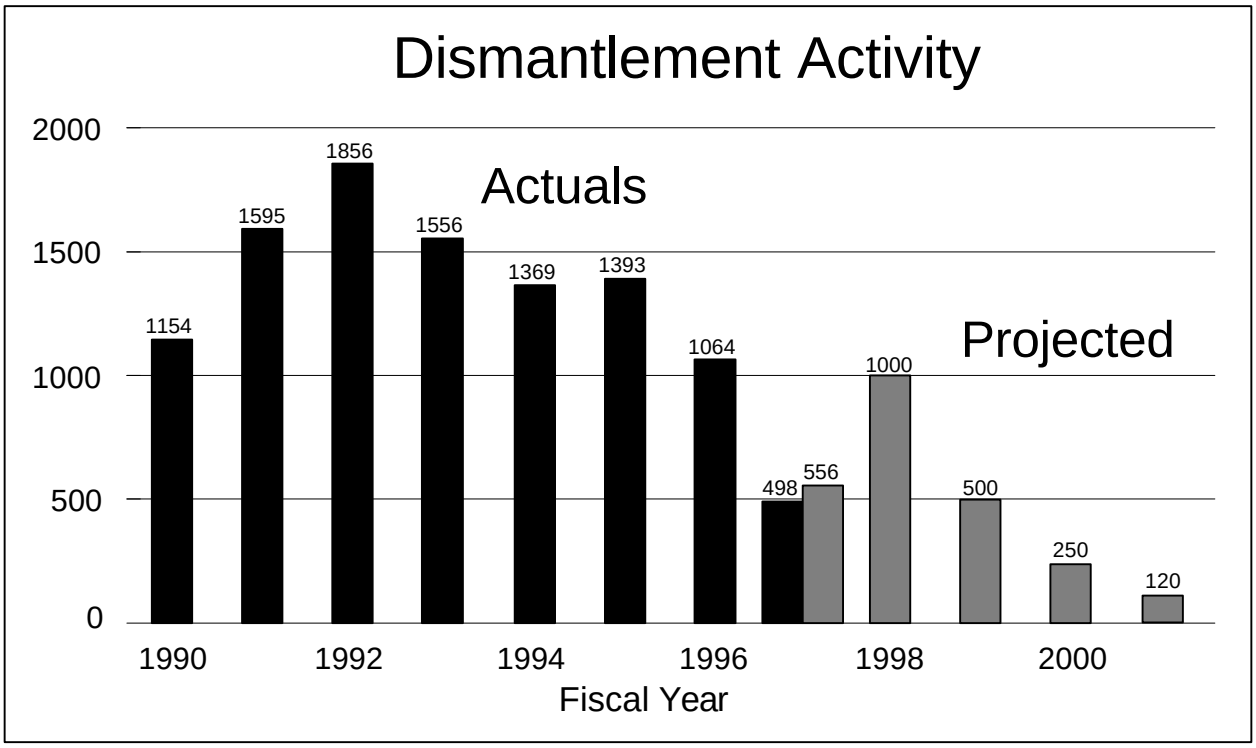
The Department ensured the safety and reliability of the nuclear weapons stockpile through continuing and enhanced surveillance of the weapons, meeting virtually all Department of Defense annual weapons alteration, modification, and surveillance schedules; completing an initial risk assessment for each enduring stockpile weapon; completing the design assessment phase of the W87 Life Extension Program in February 1997; and completing the 1997 Annual Certification Technical Reports that allowed the Department to recertify that the stockpile is safe and reliable.

Planned progress was made toward developing a new production source of tritium by 2005 by moving forward on both technology tracks using a commercial reactor or irradiation services and making accelerator design option decisions. The Department, however, did not approve the commercial reactor's tritium extraction facility project baseline in September as originally planned.

In FY 1997, the Department reduced the nuclear weapons stockpile by safely dismantling 498 warheads without adversely impacting the environment or public safety and health. The shortfall from an expected level of 556 weapons was due to a safety concern over the detonator removal process for the W69 warhead.

Workers dismantle nuclear warheads. DOE is committed to dismantle nuclear warheads that have been removed from the U.S. nuclear stockpile without impact to the environment, worker and public safety, or health.

The Department's national security mission includes activities that support U.S. arms control, national and global nonproliferation goals, and nuclear threat reduction to meet the new challenges posed by threats to our



national security. We are working closely with other nations to protect existing nuclear material and to prevent additional production of materials.

We have made progress in dealing with U.S. weapons-usable fissile materials; protection, control, and accounting for materials (MPC&A) in Russia, the Newly Independent States, and the Baltics; limiting the use of highly enriched uranium (HEU) and plutonium (Pu) worldwide; and establishing transparent and irreversible reductions of fissile material worldwide. A path forward for storage and disposition of U.S. weapons-usable fissile materials was announced in January 1997 and progress is being made on the selected path. Through cooperation with the Russian Federal Nuclear Radiation and Safety Authority, MPC&A upgrades on information systems were accomplished this year. Three shipments of U.S.-origin HEU were received, and 3,550 spent fuel rods were received from the Democratic People's Republic of Korea (DPRK). These rods were canned in preparation for safeguards controls by the International Atomic Energy Agency (IAEA). We successfully negotiated expansion and began implementation of transparency agreements as part of the purchase of 500 metric tons of HEU from dismantled former Soviet nuclear warheads.

The Department strengthened the nuclear nonproliferation regime by providing equipment, technologies, and expertise to IAEA and the United Nations Special Commission (UNSCOM) to monitor and inspect North Korea and Iraq's compliance with the Nuclear Non-Proliferation Treaty obligations. Eleven agreements for safeguards cooperation between DOE and foreign governments or organizations were implemented, and U.S. weapons-grade materials were placed under IAEA safeguards during FY 1997. The safety of Soviet-designed nuclear power plants in Russia, Ukraine, and central and Eastern Europe was improved by addressing endemic safety problems, and the Department assisted

a multi-national effort to shutdown the Chornobyl nuclear power plant by the year 2000 to reduce environmental and safety threats.

Finally, the Department made progress on reducing the size of the nuclear weapons complex and mitigated the impacts on workers and communities affected by contractor workforce restructuring.

Environmental Quality

Today, in the post-Cold War era, we are faced with the largest environmental cleanup in U.S. history. Fifty years of operating weapons-related facilities left a legacy of unacceptable risk to the environment and the health and safety of the American people. The Department of Energy is committed to minimizing the environmental risks posed by its past and current activities, as well as reducing harmful environmental effects associated with energy production, delivery and use. We have been aggressively addressing both the immediate and long-term environmental and health risks of the Department's former weapons production complex, making progress in our efforts to resolve issues surrounding the safe disposal of civilian and military nuclear spent fuel and high-level waste, accelerating cleanup to address high and adverse impacts on the human health of surrounding communities, and seeking innovative approaches to clean up current pollution and prevent future pollution.

In 1997, the Environmental Management Program initiated the implementation of its "2006 Plan" to complete the cleanup of most of our contaminated sites over the next 10 years. The first surplus weapons production site, the Pinellas Plant, was closed and turned over to Pinellas County in September 1997.

We accelerated the complete deactivation of the PUREX plant at the Hanford Site from the original schedule of FY 1998 to FY 1997, with an estimated cost reduction of $43.4 million. To safely deactivate surplus non-weapons nuclear facilities, the Department removed the remaining fuel from the Experimental Breeder Reactor II in Idaho and completed the construction of the Sodium Processing Facility to prepare wastes for ultimate disposition.

The treatment, storage and disposal of radioactive wastes is an on-going effort that is indicating significant progress. In FY 1997, we treated approximately 6,000 cubic meters of low level waste and disposed of approximately 38,000 cubic meters of low level waste. We also produced more than 270 canisters of vitrified high level waste for future repository disposal. In December 1996, the Department awarded a contract for an advanced mixed waste treatment facility at the Idaho National Engineering Laboratory.

The Department completed cleanup actions at 10 Environmental Management geographic sites to bring the cumulative total of completed sites to 62 out of 132 sites to be remediated. We completed 140 facility decommissionings to bring the total to 380 out of 1,090 facilities, and completed remedial actions at approximately 485 release sites, now more than one-third of all release sites planned for remedial action. A primary goal of our environmental quality business is to prevent future pollution to minimize the impact of the Department's operations on the environment, reduce costs, and improve efficiency. In FY 1997, we completed more than 100 pollution prevention projects and pollution prevention plans for 30 reporting sites.

In FY 1997, the DOE Civilian Radioactive Waste Management Program, which is charged with disposing of the nation's spent nuclear fuel and high-level radioactive wastes, refocused its activities to provide deliverables consistent with reduced funding and revised policies. We reached an important milestone when we completed the excavation of the Exploratory Studies Facility main 5-mile loop at Yucca Mountain on April 25, 1997. DOE also submitted a Topical Safety Analysis Report to the Nuclear Regulatory Commission (NRC) on May 1, 1997. This report for a non-site specific Phase I interim storage facility design is currently under a detailed technical review by the NRC and will assist in maintaining a readiness capability should interim storage be authorized by legislation.

Post holeout activities at the Exploratory Studies Facility at Yucca Mountain. The facility's 5-mile tunnel was completed in April 1997 as research continued to determine the site's suitability for a permanent repository of commercial nuclear waste.

Science and Technology

The United States is globally recognized as a leader in science and technology, and the Department of Energy plays a major role in maintaining this leadership. Our science and technology mission is to utilize our reservoir of scientific and technological assets and capabilities to conduct world class basic and applied research that will advance U.S. security and economic productivity by supporting a broad national science and technology portfolio. The Department draws upon an extensive network of national laboratory expertise in science and technology that DOE and our predecessor agencies have developed over the past 50 years. The work of our laboratories' 30,000 scientists and engineers provides the foundation for success in all our missions. All of DOE's key programs depend on the laboratories' award-winning research to pave the way for a sustainable energy future, enhanced environmental quality, economic growth, and a smaller, safer nuclear stockpile.

Our contributions to technological development were recognized by our winning 36 of R&D Magazine's "R&D 100" Awards in 1997. The number won by our laboratories since the award program began in 1963 is 453, the most awarded by far to any single organization and twice as many as all government agencies combined. Previous winners of this prestigious award, presented to the year's most outstanding technological developments with commercial potential, include such well-known products as antilock brakes, the VCR, the automated teller machine, and the cancer-fighting drug Taxon. This year's award-winning innovations ranged from supercomputing to the biological recycling of tires, reflecting the breadth of resources within the national laboratories. They also reflect our collaborative efforts. Five awards were the results of collaboration among the laboratories and 20 were shared with industry, including small business.

The Department of Energy provides and operates major user facilities for DOE research, as well as partnerships with industry and the scientific community. These facilities include synchrotron radiation sources, neutron sources, and electron beam microanalytical instruments which are essential forefront research tools that scientists use to advance knowledge and develop new products, materials, and manufacturing processes. In FY 1997, we achieved new milestones in the number of hours used at DOE's basic energy science facilities including the Stanford Synchrotron Radiation Laboratory, the National Synchrotron Light Source, the Advanced Photon Source, the Advanced Light Source, the Intense Pulse Neutron Source, the Los Alamos Neutron Scattering Center, and the High Flux Isotope Reactor.

The Department continues to pursue international collaborations on large-scale science projects to explore the frontiers of high energy physics. In FY 1997, we completed negotiations and signed the "International Cooperation Agreement Between the European Organization for Nuclear Research (CERN) and the Department of Energy of the United States of America and the National Science Foundation of the United States of America Concerning Scientific and Technical Cooperation on Large Hadron Collider Activities." We are also working on the next-generation, high power, pulsed spallation neutron source, now in planning at Oak Ridge National Laboratory. This

Four DOE laboratories were jointly recognized with an R&D 100 award for their research into a new chemical process that uses a mutant bacterium created through genetic techniques. The laboratories signed a $7 million cooperative research and development agreement with a Pennsylvania chemical company to develop the process into a cost-effective source of commercial chemicals.

year, we completed a peer review of a Conceptual Design Report by 60 independent, world-wide experts.

Our science and technology activities are essential to missions of other Federal agencies. In FY 1997, we supported the National Aeronautics and Space Administration's (NASA) space exploration efforts by providing power systems. We designed, fabricated and assembled radioisotope thermoelectric generators and radioisotope heater units for NASA's Cassini and Mars Pathfinder missions. We supported the Presidential Initiative on the Next Generation Internet, a multi-agency

effort that includes the Defense, Energy, and Commerce Departments, NASA, and the National Science Foundation. In FY 1997, we worked with these agencies through coordinated research activities to develop an implementation plan to build a foundation of computer network technology applications for the future. Our human genome research is conducted through coordinated efforts with the National Institutes of Health and the international community. Our research is advancing the state of genomic research by increasing the speed and quality of DNA sequencing and improving quality and efficiency of data entry into public data bases.

Our scientific research efforts support the investigation of the causes of climate change to predict if and how energy production and use can affect the global and regional environment. With a budget of $40 million annually, the Atmospheric Radiation Measurement (ARM) program is the Department's largest contribution to the U.S. Global Change Research program. In FY 1997, we dedicated the new ARM site on the North Slope of Alaska to help us better understand clouds and energy flows in the Arctic region. The data gathered at this new site will be used to refine the computer models that predict global climate change.

Economic Productivity

The Department's emphasis on scientific research and development is helping us realize our vision for the Nation's economic growth. We are partnering with U.S. industry to advance technological development using our laboratories' core competencies in areas such as energy and environmental technologies, advanced materials development, and high-performance computing. Our partnerships with U.S. industry are providing sustainable, clean, and economical energy technologies throughout the world. They are leading to new market opportunities and the creation of high-wage jobs. The new technologies that we have helped develop and bring to market will keep American industry competitive in the global market and enhance energy security, reduce energy costs, and protect the environment. By accessing capabilities and talent found in our laboratories, industrial partners gain valuable benefits, such as access to unique research facilities. At the same time, the Department lowers the cost of its mission R&D and keeps vital technological capabilities at the leading edge.

Developing nations are providing the United States a profitable opportunity as they begin to invest in industry to fuel their economic growth. Exporting our technologies is beneficial both to U.S. industry, as sales of its products increase, and to the nations that invest in them, as they strive to ensure a clean, more productive future. In FY 1997, we helped remove barriers to U.S. companies in coal technology and energy efficiency and renewables markets, including those in China, Brazil, India and South Africa. We opened oil, gas, energy efficiency and renewable technology opportunities for U.S. companies in Ukraine and initiated a forum for Arctic oil and gas practices with Russian associations.

Here at home, we are working with the most energy-intensive industries to focus cooperative research, increase energy and resource efficiency, and improve U.S. competitiveness. In October 1996, we signed a partnership agreement with the U.S. aluminum industry and signed a similar agreement with the chemical industry last February. The steel, glass, metalcasting, and forest products industries are also part of this

program, known as "Industries of the Future".

We are also working to deliver the benefits of efficiency and renewable energy R&D to U.S. consumers by reducing their energy bills, improving the economy, preventing pollution, and improving the environment. In FY 1997, our programs saved $10 billion in consumer energy costs in homes, buildings, businesses, industries, and vehicles. We saved the Federal government over $700 million in energy costs. These investments have helped the United States avoid 15 million tons of pollutants from energy use. We are also developing a plan to increase the energy efficiency of buildings through the adoption of an approach the industry calls system integration or "whole buildings." Ultimately, the plan will result in 50 percent more efficient new homes and commercial buildings and 20 percent more efficient existing homes.

Small business is the backbone of our economy and the Department plays a role in facilitating the growth and development of small businesses. We developed a comprehensive Departmental strategy to provide increased procurement opportunities for small business. The strategy includes co-sponsoring training and technical assistance seminars with other agencies to exchange lessons learned and innovative initiatives, expanding participation in the small business Mentor-Protégé Program, and conducting a comprehensive subcontracting plan review to assure compliance under our contract reform diversity clause provisions.

Corporate Management

The corporate management goals and objectives for FY 1997 reflected our commitment to adopting the best business practices and were key indicators of the Department's performance in carrying out our missions. They ensured that we place the highest priority on protecting the environment and the health and safety of our workers and the public; that the American people have trust in and access to the Department's activities; that we used the best-in-class resource management and procurement practices, and that we treated our employees as our most valuable resource.

Communication and Trust

Since the announcement of the Department's Openness Initiative four years ago in which we pledged to replace the Cold War culture of secrecy with one of openness, communication and trust, the Department has led this unprecedented effort to ensure the American people have trust in government and that it is accountable to citizens. In the last 4 years, we have declassified thousands of documents, established an interagency telephone helpline in response to the demand for information, and developed OpenNet, an Internet-based capability that enables the public to electronically search and retrieve documents. In FY 1997, we reviewed 2.3 million pages of historically significant national security records 25 years or older and declassified 38 percent of these documents. In March 1997, Secretary Peña announced an important milestone in the openness effort with the release of the document, "Building Public Trust" in which commitments and actions directed by President Clinton were outlined to respond to the recommendations of his Advisory Committee on Human Radiation Experiments.

In FY 1997, we reviewed an additional 400,590 documents for potential declassification under the Atomic Energy Act and Executive Order 12958. We

continued to develop techniques to improve delivery of our services and products to customers and stakeholders by improving our information management systems. We are working to eliminate backlog in Freedom of Information Act (FOIA) requests. Stakeholder involvement is also essential to the success of our programs. The Environmental Management Program ensures that decisions consider the input of site-specific advisory groups which we increased this year to 13 Site-Specific Advisory Boards. We completed a third national survey of our stakeholders' attitudes, needs, and expectations of the Department to assess our progress against previous results. In FY 1997, 9 DOE organizations conducted a survey of a total of 6,374 customers, more than twice the number as in FY 1996. Although more than 75 percent of respondents were satisfied or very satisfied with our products and services, these results did not indicate an increase in customer satisfaction from the FY 1996 level.

Human Resources

The Department continuously strives to provide an environment where teamwork, trust, openness, pride and respect are standard practices, and excellent performance is rewarded. We provide meaningful work opportunities and implement innovative compensation and personnel initiatives to attract and retain a diverse and well-trained workforce, capable of carrying out our missions. To improve the technical qualification of our personnel, we implemented tracking systems in FY 1997 which ensure that our employees meet or exceed applicable Technical Qualification Standards and report on actions to address the critical unmet technical safety needs previously identified. We are streamlining the management structure while ensuring we maintain workforce diversity. In FY 1997, we reduced the number of supervisors by an additional 24 percent and decreased the number of employees in senior-level positions by 220. At the same time, we issued quarterly reports on the Diversity Program Monitoring system and implemented the Hispanic Outreach Initiative. For those employees requiring transition assistance to minimize the impacts of Headquarters downsizing, we expanded our services to include 10 specialized 2-day workshops and developed an outplacement and career development tracking system.

Environment, Safety and Health

Reinventing our agency also demanded we reexamine our priorities. We recognized that making the health and safety of our workers and the public and protecting the environment must be one of our highest priorities in conducting our business. DOE leadership confirmed that there will not be a trade-off between success in our missions and environment, safety and health. We have made progress in identifying and managing the hazards across the Department's complex, taking swift and unprecedented actions when necessary to rebuild trust and to make environment, safety and health a priority. In February 1997, Secretary Peña announced the termination of the Department's contract with Associated Universities for management of Brookhaven National Laboratory due to environment, safety and health concerns. During the next 10 months, the Department and the Environmental Protection Agency conducted an intensive review of environmental, safety and health activities at Brookhaven, while completing one of the fastest processes for selecting a new management and operating contractor for a national laboratory. These efforts reflect this Administration's commitment to fully integrating safety and environmental protection into scientific

research in the Department's network of national laboratories and sites.

Environment, safety and health considerations are today an integral component of everything we do, and every individual working for the Department, from Federal employees to subcontractors, is now engaged in our efforts to ensure a safe workplace and a clean environment. In August 1997, seven DOE sites were awarded Vice President Gore's Hammer Award for participation in a Department-wide initiative known as Enhanced Work Planning to improve safety, increase efficiency, and reduce costs.

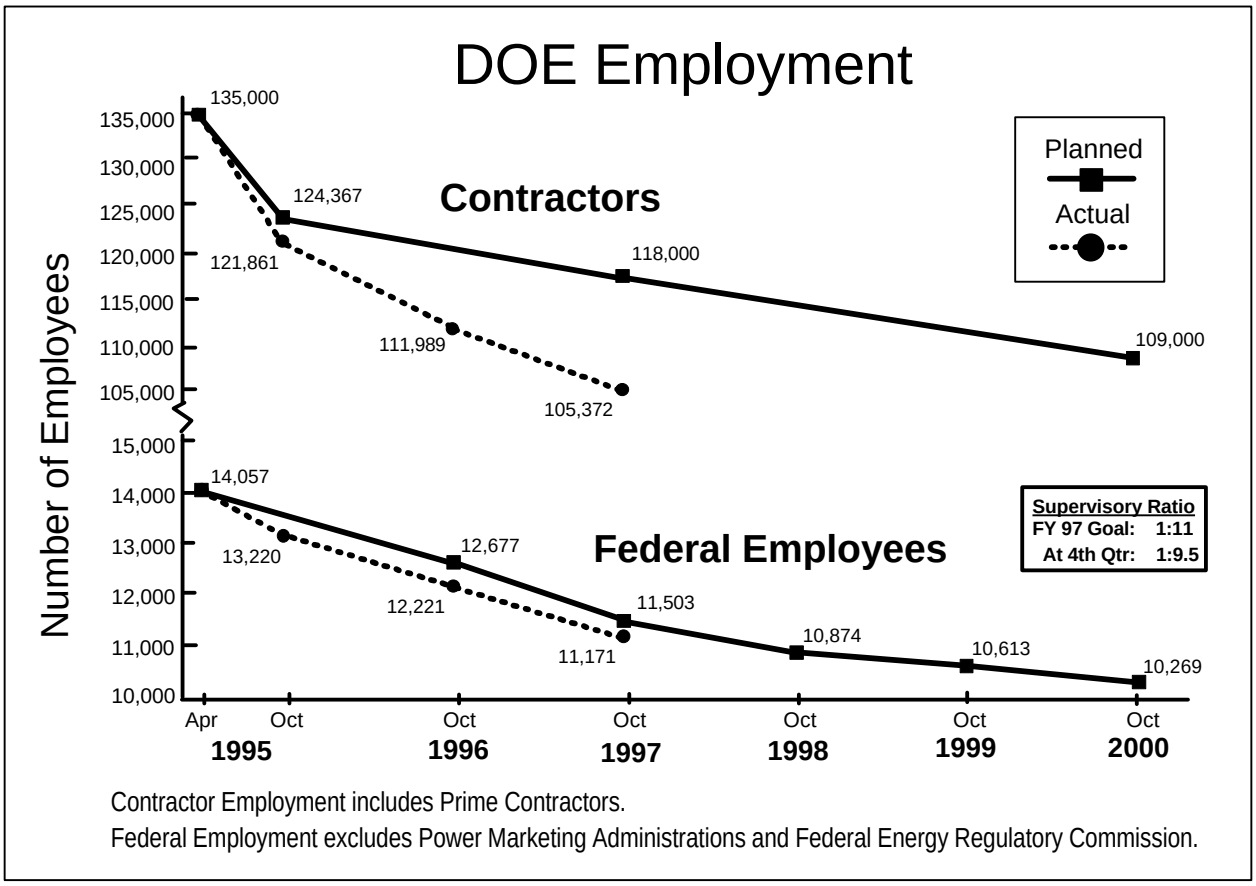
We continue to shift from a reactive approach to an emphasis on prevention and excellence in protecting worker and public safety and health and in achieving environmental standards. In FY 1997, three baseline assessments were completed for a comprehensive medical follow-up program for former workers who may have been exposed to hazardous substances. Our records related to environment, safety and health are open and our stakeholders today have easy access to this information. Records on Russian worker radiation are valuable in helping the United States gain further insight into radiation safety. This year we completed the preservation microfilming of these fragile records of worker dosimetry. We now have a multi-disciplinary, fully integrated oversight process for independently evaluating environment, safety and health and safeguards and security programs.

Management Practices

The Department has adopted "best-in-class" management practices in conjunction with our mission. Performance is our focus and is integrated into management practices throughout headquarters, field and contractor operations. Through the Strategic Alignment Initiative, we reduced Federal staffing by 2,889 positions, achieving cumulative savings for FY 1996-1997 of $213 million. We achieved more than $360 million in savings through continued improvements in contracting, information management, and travel activities.

Since recognizing the opportunity to reduce administrative costs associated with Federal regulations, we have eliminated many unnecessary prescriptive requirements as well as nonessential processes, reports, forms and directives. The number of paper purchase orders as well as the cost per transaction has decreased substantially in FY 1997 through the use of electronic purchasing and credit cards for small purchases. We have applied business process reengineering to other Departmental functions such as major acquisitions, interagency agreements and payment processing.

Accomplishments in our contract reform initiative implemented in 1994 were recognized through the Contract Reform Self-Assessment process conducted in FY 1997. Increased competition, cost reduction, greater contractor financial accountability, and improved efforts to protect workers, the public and the environment are all successes achieved in the Department's reinvention of its contracting practices to performance-based approaches.



Contractor Employment includes Prime Contractors.

Federal Employment excludes Power Marketing Administrations and Federal Energy Regulatory Commission.